

Ames 97

For The Year Ended January 31, 1998





CELEBRATING 40 YEARS OF RETAILING

A Proud History.

Starting out in 1958 with an 8,000-square-foot store in Southbridge, Massachusetts, Ames' founders created a successful business tradition by offering a wide range of quality merchandise to value-conscious shoppers at discount prices. Joining other retail pioneers, the fledgling mass merchandising industry by 1960 totaled only \$2.9 billion in sales and 1,985 stores.

Seeking locations that strengthened its existing market position in small and medium-sized communities, Ames found early success. Sales reached \$55 million by 1970 and grew to \$303 million by 1980. Today, Ames is a multi-billion dollar retailer.



Founding Brothers — Irving and Milton Gilman founded Ames in 1958. A third brother, Herbert, joined the Company in 1959.

Since its 1992 reorganization, Ames has refocused on the fundamentals of retailing. By anticipating the needs of its customers, Ames has reestablished the positive momentum begun by its founders. Led by a knowledgeable, experienced management team dedicated to its customer base, Ames is poised for many more years of service as a premier regional discount retailer.



Ames

T O D A Y

FisherPrice



Coleman

Wrangler



Rubbermaid

Brand Names

Profitability continues to improve at Ames despite the competitive Northeast market. Offering a broad spectrum of quality brands keeps loyal and value-conscious customers satisfied.

Name brands signify quality and style to Ames customers. Ames is a destination store for name brand casual apparel, including jeans, fleece, T-shirts, socks and underwear.



Focusing on allocation methods has significantly improved in-stock levels for basic merchandise. Store specific in-stock levels reduce markdowns and have a positive impact on gross margin.

Strong Apparel Focus

Ames has expanded its successful ladies' and men's plus size programs into the children's area. The Perfect PlusSM area for girls, and Husky for boys are new examples of how Ames is working to anticipate customer needs.

This year's apparel success stories resulted in double digit sales increases in ladies'

sportswear, men's basics, and sleepers and robes. **Special Buy** and licensed apparel fueled sales in the infant and toddler departments.

Home

Customers know that there is no place like Ames for the home category. Ames has become a destination store for ready-to-assemble (RTA) furniture and crafts.



An Ames Tradition:
Brand Names,
Great Values.

CANNON®

HASBRO TOY
A DIVISION OF HASBRO, INC.Hanes
Her Way
Hanes

MAGNAVOX

Sunbeam®

PROCTOR-SILEX®



Crafts & More® departments are now in 270 stores. Version planogramming and targeted allocation have improved gross margin and inventory turn. Targeted allocation helped reduce rainchecks by 64 percent in electronics, the highest raincheck area.

Hardlines

Ames focuses on offering a balanced merchandise mix. The biggest toy book in Ames history boosted toy sales. Holiday shoppers came to Ames to find the "hot" items on everyone's wish lists. Trim-A-Tree and seasonal goods were important sales categories. Whether shopping for holiday wrapping paper or candy for Halloween, customers know they will find what they need at Ames.

Micromarketing

Ames continues to take advantage of geographical and regional sales opportunities by micromarketing by store in ethnic, college and resort categories. Throughout 1997, the Company constructed the foundation for a three-year game plan for allocation. This process has already resulted in positive sales results in resort stores throughout the chain.

Ames continues to offer customers exciting bargains, seasonable inventories, and the well-recognized brand names that they trust—in every department.



Advertising great bargains from the beginning.



Ames

T O D A Y

The Easy Place to Shop

In today's competitive market, time-starved customers want great value for their hard-earned dollars and a convenient shopping experience.

How does Ames do it?

By listening to its customers and designing stores that make shopping fast, easy and pleasant.

- Smaller-sized stores (an average of 60,000 square feet compared to over 100,000 square feet of some of its competitors) let customers get in and out with ease.

- An easy-to-negotiate open floor plan allows customers to see the entire store at a glance. Bright, attractive signing makes finding the right department a breeze. And soft corners open up to draw customers into key departments.

- A brand new \$36 million point-of-sale (POS) system (to be installed in all stores by the fall of 1998) helps to move customers through checkout lines quickly and efficiently.

- Conveniently located Customer Service desks handle customer questions and concerns with ease.



Huge crowds, prizes, promotions and bargains aplenty have made Grand Openings a festive tradition.



Let the Bargains Begin!

The traditional ribbon-cutting ceremony by Ames executives and local dignitaries signals the birth of another great store.

With 298 stores in 14 northeastern states and the District of Columbia, Ames has a solid position and room to grow. In 1997, 9 new stores were opened and 8 others were remodeled in the new prototype. As of March 1, 1998, 68 stores have been converted to the easy-to-shop format. Ames plans to continue to grow in 1998. Ames' capital spending plans for 1998 include funds for opening or remodeling up to 20 stores in the new prototype.



Bright, attractive, easy-to-shop stores. Friendly, knowledgeable associates. Fast, efficient checkouts. What could make shopping easier?



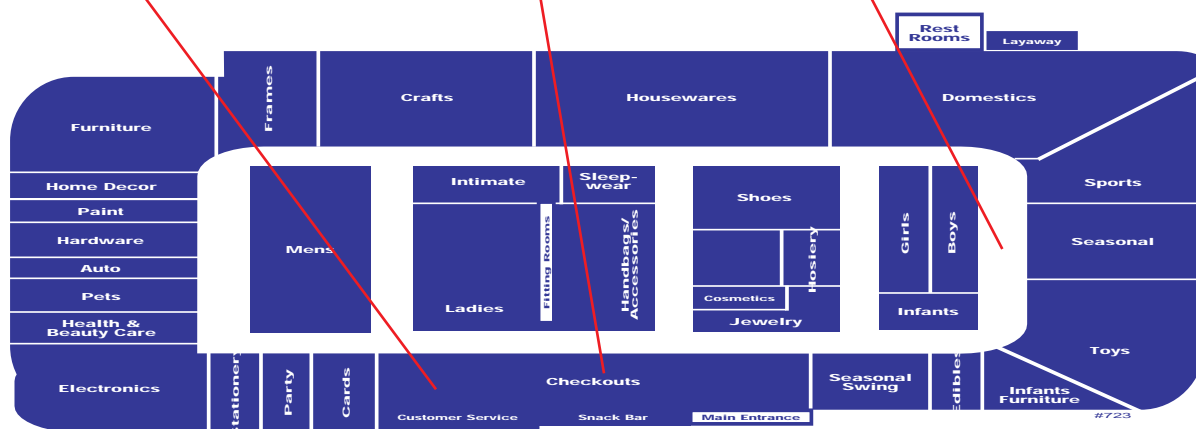
Customer Service



Express Checkouts



Bargain Aisles



21st Century Efficiency

Ames is ready for the 21st century with the planned rollout of a new Point-of-Sale system and Year 2000 compliant software.



Initiatives taken in 1997:

- **The 5 a.m. Delivery Program roll-out completed**
- **Successful test pilot of the POS System**
- **EAS installed in 89 stores**

POS System Rollout

In the fall of 1997, a 10-store rollout of Ames' new \$36 million Point-of-Sale (POS) system was completed. The system is much simpler for cashiers to operate, lessening training time and the amount of time customers spend in the

checkout line. A chainwide rollout is scheduled to be completed by the fall of 1998.

Siemens Nixdorf registers and Hewlett-Packard back office computers will improve associate productivity, customer service and allow for future promotional activities.

Year 2000 Compliant

The "Year 2000 Problem" cannot be deferred. Since 1996, Ames has been updating and installing new programs to ensure that all of the Company's computer software is Year 2000

compliant no later than mid-1999. All critical systems will be in place by the end of 1998.

The Power of the Internet

Over the past few years, the Internet has become a universal business tool. In May 1996, www.AmesStores.com was fully operational. In the spring of 1997, Ames introduced an updated Web site which added promotional sales event information, and a convenient link to stock information.

Distribution Services

The 5 a.m. delivery program, which has increased operational efficiency, was completely installed in all stores in February 1998. The delivery of merchandise is scheduled before the store opens, instead of during business hours. This program was instrumental in solidifying a 95 percent in-stock position. Rainchecks were reduced to 1.8 percent. An improved



in-stock position will enable customers to purchase the merchandise they need when they want it.



In-Stock, Every Day

has always been the goal of Distribution Services. Incorporating more efficient methods throughout the years has steadily improved the in-stock position.

Asset Protection

With strong incentive programs, like **Find It! Fix It!!** and **Safety Bingo**, store associates stay involved in keeping store safety and shrink levels under control.

Electronic Article Surveillance (EAS), which was installed in 89 stores in 1997, is an electronic sensor attached to merchandise that helps to detect shoplifters. With the test rollout of the new POS system, an exception monitoring system will be introduced. This back office software program, in conjunction with the POS system, will track incidents of internal theft. A complete store rollout of this system is scheduled for the end of 1998.



A POSitive Improvement
State-of-the-art registers whisk customers through checkouts quickly and accurately.

Ames

T O D A Y



Loyal Customers

By listening to customers' needs, Ames has shown a strong commitment to continually improving customer service.

Customers Respond:

"The store is a clean, friendly, well-stocked place to shop. Each member of the staff appears to go out of their way to help with customers' needs."

— a New Jersey customer

"I had the opportunity to witness a very patient and courteous employee in your store...this young man assisted everyone with patience and politeness."

— a Massachusetts customer

"Thank you for your kind, helpful and caring employees. I've always been a satisfied customer and have often been the recipient of your 'bargains.'"

— a Connecticut customer

"Your employee's positive attitude was apparent in his every word and action. I feel that his efforts will be one of the reasons Ames will succeed against the competition."

— a Pennsylvania customer

In 1997, Ames formed a customer advisory board to give customers the opportunity to voice their opinions on Ames service and selection. Customer feedback has proven to be valuable in understanding what they want to buy. Customers' main concerns are value and service. They want friendly, helpful

associates to assist them in finding the merchandise they need at prices they can afford. Customer comment card scores reflect customers' attitudes toward Ames. The steady rise in these scores demonstrates that customers are increasingly satisfied with what they find at Ames.

Proud Associates

Associates focus on anticipating customers' needs every day with the **A+ Service Program**. The four steps of the program ask associates to **smile**, **greet** the customer, **meet** the customer's needs, and **thank** the customer. When customers compliment associates

for providing excellent service, associates are awarded A+ points towards an A+ Service pin. Ames associates are proud to be recognized for their hard work. Associates have been awarded over 16,000 A+ pins, 3,416 silver pins and 520 gold pins since the program began in 1995.



College Recruitment

Begun in 1997, Ames' college recruitment programs include a rigorous Assistant Buyer Training Program for new graduates who are interested in careers in the retail industry. Selected graduates enter a 10-week program designed to provide the best retail training available.

After successful completion of the program, Assistant

Buyer Trainees assume the position of an Assistant Buyer at Ames. In 1997, nine college graduates completed the program and are now Assistant Buyers.

In the Community



Hometown Values

Ames has made a big impact in small towns through a variety of fundraisers and community events.

Since 1958, Ames has been a focal point of its local communities. Thanks to the enthusiasm and generosity of Ames associates, many non-profit organizations have been assisted in their fundraising efforts. Whether hosting a bake sale to support a local animal shelter, raising money to help pay the medical costs of a sick child, or using a holiday party fund to buy clothes and needed supplies for fire victims, Ames associates are making a difference in their communities.

Ames' corporate charitable focus is on children afflicted with disabling and life-threatening illnesses. Through a variety of creative in-store promotions, Ames raised over \$300,000 for the *Muscular Dystrophy Association*, the *March of Dimes*, and the *Cystic Fibrosis Foundation*, a 25 percent increase over 1996.

Making the holidays brighter for underprivileged and ill children throughout the service area is an annual Ames tradition. Ames teamed up with the

Salvation Army for the sixth annual *Share Because you Care®* program, which provided thousands of gifts to needy children in the local communities. For the fourth consecutive year, over 1,500 gift-wrapped holiday presents were donated to the children of the *Dana Farber Cancer Institute* and the *Connecticut Children's Medical Center*.

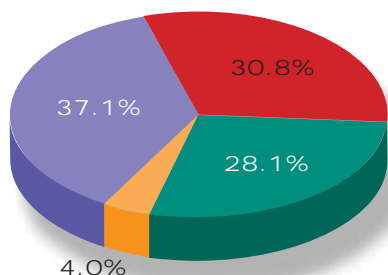
Ames' tradition of enthusiastic community service will be bolstered in 1998 by The Ames Foundation, which will provide funding for a variety of community-oriented organizations and events.

Getting involved with the local community is more than good business practice. For forty years, it has been the Ames way of being a good neighbor.



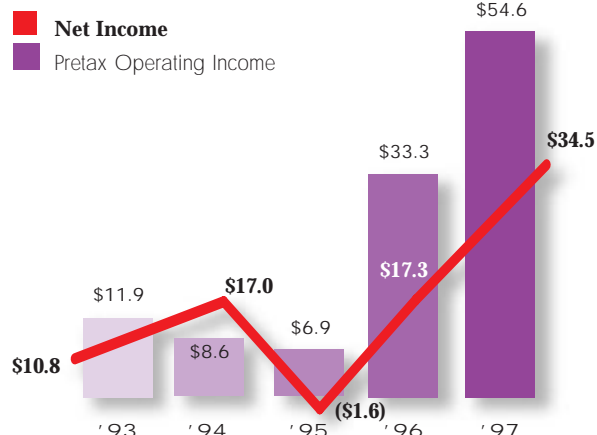
Highlights

Merchandise Sales Mix
(Dollars in thousands)

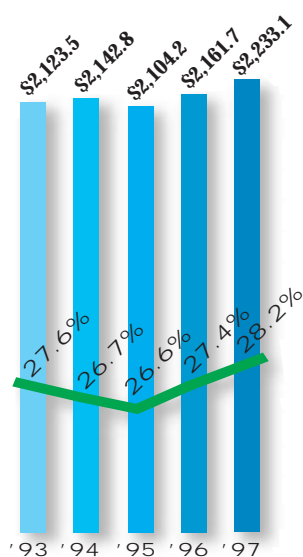


Home	\$863,256	37.1%
Jewelry/Apparel	\$716,067	30.8%
Hardlines	\$653,795	28.1%
Shoes	\$92,177	4.0%

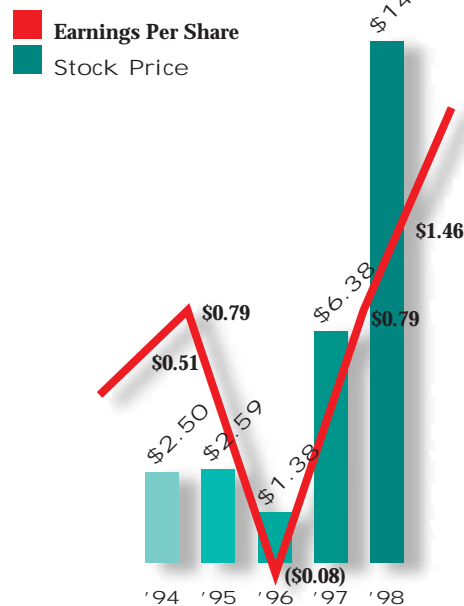
Income
(Dollars in millions)



Net Sales Growth/Gross Margin %
(Dollars in millions)



Stock Price/Earnings Per Share
(January)



SALES ANNOUNCEMENTS

Month	Release Dates
February	March 5, 1998
March	April 9, 1998
April	May 7, 1998
May	June 4, 1998
June	July 9, 1998
July	August 6, 1998

Month	Release Dates
August	September 3, 1998
September	October 8, 1998
October	November 5, 1998
November	December 3, 1998
December	January 7, 1999
January	February 4, 1999

Corporate Directory



BOARD OF DIRECTORS

Paul M. Buxbaum

*Chairman of the Board
Ames Department Stores, Inc.
Executive Vice President
Buxbaum, Ginsberg &
Associates*

Joseph R. Ettore

*President and
Chief Executive Officer
Ames Department Stores, Inc.*

Francis X. Basile

*Retired Chairman and
Chief Executive Officer
CIT Group/Factoring, Inc.*

Alan Cohen

*Chairman
Alco Capital Group, Inc.*

Richard M. Felner

*Head of
Richard M. Felner Associates*

Sidney S. Pearlman

*Retired Senior Vice President/
General Merchandise Manager
Younkers, Inc.*

Laurie M. Shahon

*President
Wilton Capital Group*

CORPORATE OFFICERS

Joseph R. Ettore

*President and
Chief Executive Officer*

Rolando de Aguiar

EVP, Chief Financial Officer

Denis T. Lemire

EVP, Merchandising

Eugene E. Bankers

SVP, Marketing

Richard L. Carter

SVP, Human Resources

Gregory D. Lambert

SVP, Finance

Paul C. Lanham

*SVP, Management Information
Systems*

David H. Lissy

*SVP, General Counsel &
Corporate Secretary*

Alfred B. Petrillo, Jr.

SVP, Store Planning

Grant C. Sanborn

SVP, Store Operations

James A. Varhol

SVP, Asset Protection

James J. Aglio, Jr.

*VP, General Merchandise
Manager, Home*

Lisa M. Bachmann

VP, Allocation & Planning

Catherine A. Berey

VP, Human Resources Services

David S. Covitz

*VP, General Merchandise
Manager, Hardlines*

John R. French

RVP — Stores, Region 1

John J. Hlis

VP, Real Estate

William T. Hunt

VP, Accounting Operations

Nick Nuccetelli, Jr.

RVP — Stores, Region 4

Antonio D. Pimenta

VP, Taxes

Oswaldo Ricci

VP, Distribution Services

Dorene E. Robotti

VP, Legal

Sanford H. Sansavera

*VP, General Merchandise
Manager, Softlines*

Ronald R. Templeton

RVP — Stores, Region 3

Michael A. Torti, Jr.

RVP — Stores, Region 2

Mark von Mayrhauser

VP, Controller

Margaret E. Wyrwas

*VP, Corporate Communications
& Investor Relations*

CORPORATE INFORMATION

NASDAQ Listings:

Common Stock: AMES
Series C Warrants: AMES wt

Stock Transfer Agent

& Registrar:

ChaseMellon
Shareholder Services, L.L.C.
Overpeck Centre
85 Challenger Road
Ridgefield Park, NJ 07660
(800) 851-9677
www.chasemellon.com

Independent Auditors:

Arthur Andersen LLP
1345 Avenue of the Americas
New York, NY 10105
(212) 708-4000

Counsel:

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767 Fifth Avenue
New York, NY 10015
(212) 310-8000

Form 10-K or

Quarterly Reports:

To receive additional financial
information about Ames,
please write to:

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(860) 257-2666

Securities Analysts & Portfolio Managers:

Please direct inquiries to:

Margaret E. Wyrwas
Vice President
Corporate Communications
& Investor Relations
MS #1030
2418 Main Street
Rocky Hill, CT 06067
(860) 257-2659
(860) 257-2168 fax

Annual Meeting:

The Annual Meeting of
Shareholders of Ames
Department Stores, Inc. will
be held on Wednesday,
May 27, 1998, 10 a.m., at
Ames Corporate Office in
Rocky Hill, Connecticut. A
formal Notice of Meeting, a
Proxy Statement and Form
of Proxy will be mailed to
Shareholders in April.

Cautionary Statements

**Relevant to Forward-Looking
Information for Purposes of
“Safe Harbor” Provisions of
the Private Securities Litigation
Reform Act of 1995:**

When used in this Annual Report
and Form 10-K, in any future
filings by the Company with
the Securities and Exchange
Commission, in the Company's
press releases and in oral state-
ments made with the approval
of an authorized executive
officer, the words or phrases
“will likely result,” “are expected
to,” “will continue,” “is antici-
pated,” “estimate,” “projected,”
“projections,” “plans,” or simi-
lar expressions are intended to
identify “forward-looking state-
ments” within the meaning of
the Private Securities Litigation
Reform Act of 1995. Such state-
ments are subject to certain risks
and uncertainties that could
cause actual results to differ mate-
rially from historical earnings and
those presently anticipated or
projected. The Company wishes
to caution readers not to place
undue reliance of any such for-
ward-looking statements, which
speak only as of the date made.

**For fax copies of Ames' most
recent news releases, please dial
1-800-758-5804 Ext. 036787**

**Ames on-line at
<http://www.AmesStores.com>**

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